



Budget
One

one city
one public
one purpose



CITY OF BELLEVUE

2015–2016 PRELIMINARY BUDGET EXECUTIVE SUMMARY

OCTOBER 2014



INTRODUCTION

The preliminary 2015-2016 operating budget and 2015-2021 capital investment plan (CIP) balances maintaining current service levels and addressing Council's highest priorities. The budget is based in Council's Priorities adopted in May of 2014, and starts implementation of many of the two-year needs. Overall, the City continues to face uncertainty in the future - overall growth of revenues remains relatively weak, (3.5% annual average, compared to previous economic expansions at 5+%). The cost pressures related to personnel such as health care and retirement increase at rates exceeding consumer price index.

In the most recent citizen survey from early 2014, Bellevue residents continued to express a very high degree of satisfaction about the value of services they receive for their tax dollars, the overall quality of city services, and the overall quality of life in Bellevue.

Another useful measure of how the City is doing is the recognition we receive from outside organizations. Examples in 2014 included Bellevue's ranking as the second best place to live in the United States by 24/7 Wall St., an online news and opinion publication; and Livability.com included of Bellevue on its list of best small- to medium-sized cities in the U.S.

2015-2016 Budget Highlights

The Preliminary Budget shows how to continue providing quality services and sets forth a strategy for ongoing progress in meeting the City's long-term infrastructure need. Highlights include:

- Balancing and maintaining current service levels
- Projecting modest growth in the overall City budget of 7.2% over the biennium net of double budgeting
- Funding many of the Council's two-year priorities, including a Diversity Initiative, Broadband/Community Connectivity, Neighborhood Enhancement Program and Economic Development
- Maintaining the City's reserves
- Ensuring debt obligations are paid
- Proposing carefully targeted new programs to enhance operations, such as the Fire Power Stretchers and mobile technology for the City's workers in the field
- Making continued progress in meeting many, but not all, of the City's most important capital investment needs. These include maintaining existing infrastructure, Parks Levy projects, targeted investments in the long-range Fire Facility Plan, establishing a capital replacement fund for existing technology systems, and the East Link/Sound Transit Memorandum of Understanding commitments.
- Adjusting Utility and Development Services rates to keep pace with rising costs and maintain existing service levels
- Proposing a 5 percent property tax increase to supplement existing sales tax revenue. This would allow the City to use sales tax revenue to address infrastructure and neighborhood needs (amounts to \$25 annually for a \$500,000 home)



BUDGET SNAPSHOT

- ◆ **Population:** 134,400
- ◆ **Daytime work force:** 138,900
- ◆ **Minority population:** 41 percent
- ◆ **Foreign-born population:** 34.2 percent
- ◆ **Area of City:** 33.4 square miles
- ◆ **2015-16 total budget:** \$1.472 billion
- ◆ **2015-16 total operating budget:** \$953 million
- ◆ **2015-21 total Capital General Investment Plan:** \$241 million
- ◆ **Estimated total FTEs (2016):** 1,302
- ◆ **Sales tax rate (2014):** 0.85 percent
- ◆ **B&O tax rate (2014):** 0.001496 percent
- ◆ **Property tax rate (2015):** \$1.10/\$1,000 AV (including Parks Levy)

HIGH PERFORMANCE CITY

City residents and taxpayers can assess the effectiveness of City budgets and policies through the results of statistically valid citizen surveys, conducted to ensure that the City hears from a cross-section of its residents.

Survey results show that people who call Bellevue home are very satisfied with the City, their neighborhoods, and delivery of municipal services. The following highlights are provided from the City's 2014 Performance Survey:

More than 400 households were surveyed, via home telephone or cell phone. The survey, as well as other reports relating to Bellevue's budget and overall performance, can be found on the City's website at http://www.bellevuewa.gov/citizen_outreach_performance.htm.

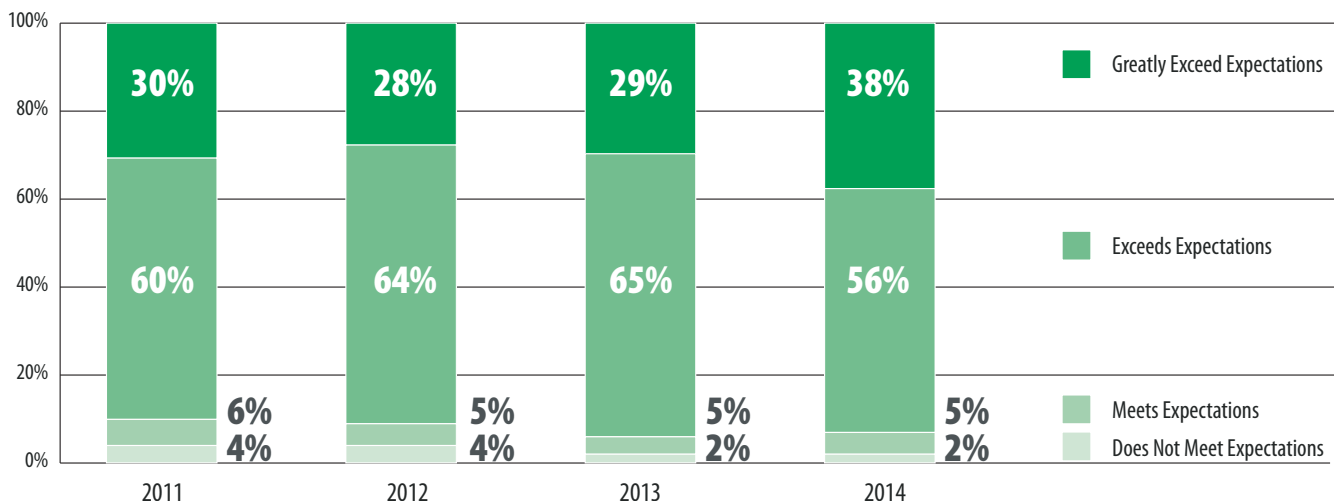
- **Heading in the right direction:** Eighty six percent of Bellevue residents feel the City is headed in the right direction, with an increase over last year in the percentage indicating the City is heading strongly in the right direction (from 27% to 32%).
- **Quality of life:** For 95 percent of Bellevue residents, their quality of life exceeds or greatly exceeds their expectations. Forty percent say that the overall quality of life in Bellevue greatly exceeds, and another 55 percent say it exceeds their expectation.

- **Quality of City services:** Ninety eight percent of Bellevue residents say the quality of City services either greatly exceeds, exceeds, or meets their expectations, with nearly 94% saying the quality of City services exceeds or greatly exceeds their expectations (see chart below).

96 percent of residents surveyed say Bellevue is a better or significantly better place to live than other cities and towns.

- **Great place to live:** When asked whether Bellevue is the same as, better, or worse place to live than other cities and towns, 96% of Bellevue residents believe Bellevue is a better or significantly better place to live than other cities and towns.

**2014 Performance Survey
Overall Quality of City Services**



COUNCIL VISION AND STRATEGIC TARGET AREAS

In May 2014, the Bellevue City Council adopted a Vision, Strategic Target Areas, and two-year Council Priorities. The 2015-2016 Preliminary Budget makes headway into funding and implementing the priorities.

Council Vision:

Bellevue 2035 - The City Where You Want to Be

Bellevue welcomes the world

Our diversity is our strength

We embrace the future while respecting our past

The 2015-2016 Preliminary Budget begins funding and implementing many of the two-year priorities. The table below highlights a few of the funded proposals showing relationship to the Council Target Areas.

Examples of Funded Proposals:

Economic Development Strategy Implementation

Funding of NE Spring Boulevard (Zone 1)
EastLink Overall

Downtown Park Development
Meydenbauer Bay Phase 1 Park Development
Broadband Fiber and Cable Franchise Program
ARCH Administration and Trust Fund Contribution

Grand Connection/Land Use Wilburton Zoning

Intergovernmental Relations / Regional Issues

Bellevue Diversity Initiative: Cultural Competence & Equity
Neighborhood Enhancement Program

One City
Hearing Assistance

Council Strategic Target Areas:



Economic Development
BELLEVUE IS KNOWN AS A HUB FOR GLOBAL BUSINESS.



Transportation and Mobility
GETTING INTO, AROUND, AND THROUGH BELLEVUE IS A GIVEN.



High Quality Built and Natural Environment
BELLEVUE HAS IT ALL.



Bellevue: Great Places Where You Want to Be
BELLEVUE IS THE PLACE TO BE INSPIRED BY CULTURE, ENTERTAINMENT, AND NATURE.



Regional Leadership and Influence
BELLEVUE WILL LEAD, CATALYZE, AND PARTNER WITH OUR NEIGHBORS THROUGHOUT THE REGION.



Achieving Human Potential
BELLEVUE IS A CARING COMMUNITY WHERE ALL RESIDENTS ENJOY A HIGH QUALITY OF LIFE.



High Performance Government
BELLEVUE IS CHARACTERIZED BY HIGH PERFORMANCE GOVERNMENT.

FINANCIAL RISKS ON THE HORIZON

The City faces a great deal of financial uncertainty heading into the future. After several years of slow economic growth, the City is still unable to restore significant reductions taken during and following the Great Recession. The City has “reset” and is operating within the “new normal” created by the Great Recession. The forecast beyond the biennium presumes that there are no additional FTEs added and LTEs expire at the end of their term.

Growth of Service Need

With staffing levels remaining flat in the out years, expenses are roughly equal to revenue. In time, staffing levels may not be able to maintain the increase demand for service. As the City grows, operation expenses may increase in excess of normal inflation requiring existing staff and resources to cover a growing population and maintain new infrastructure.

Affordable Care Act

The “Cadillac Tax” of the Affordable Care Act goes into effect in 2018, early estimates show the potential cost between \$643,000 and \$1,500,000 annually. The current forecast assumes that the City will take proactive actions to reduce or eliminate the potential impact.

Costs of Maintaining and Operating New Infrastructure:

While major maintenance and renovation projects are contained within the CIP, minor maintenance is funded through the operating funds. The City has a policy that addresses funding for minor maintenance on existing infrastructure. However as the City builds new infrastructure, there is no mechanism to ensure additional maintenance and operations funding for these future facilities. Over time, this places increasing pressure on the operating budget.

Legislative and Regulatory:

As the State of Washington implements the “McCleary” Funding for schools, and as King County continues to grapple with a structural deficit in growth in expenditures outstripping revenues, the impact to the City must be watched. The City risks losing state shared revenues and being impacted by downstream effects of reduced public health services from County.

Other Items in Out Years:

The LEOFF I Medical Reserves are forecasted to be depleted by 2018. At that point, the City begins a “pay as you go” method to fund this liability, currently estimated at approximately \$2,300,000 annually per the City’s most recent actuary report. While this number currently is included in the six-year forecast, it will be subject to annual updates by the City’s actuary and could change.

The Annexation Sales Tax Credit will expire in 2022 reducing revenues to the City’s General Fund to pay for services in the 2013 annexation area by \$1,000,000 annually.



ECONOMIC OUTLOOK

The State of the Recovery

Since the Great Recession, the economy has been improving at a steady pace. In terms of employment, about half of the States will have surpassed their prerecession peak by the end of 2014. (*Global Insight*)

The Great Recession changed consumer behaviors. The chart below shows the average household expenditures compared to total average household income. In 2007, 85% of household income was expended compared to 2012, where the expenditure rate reduced to 80%. This indicates average households are presently saving more, and therefore, spending less. This, in turn, is continuing to lead to a slow and steady recovery.

Local Economy

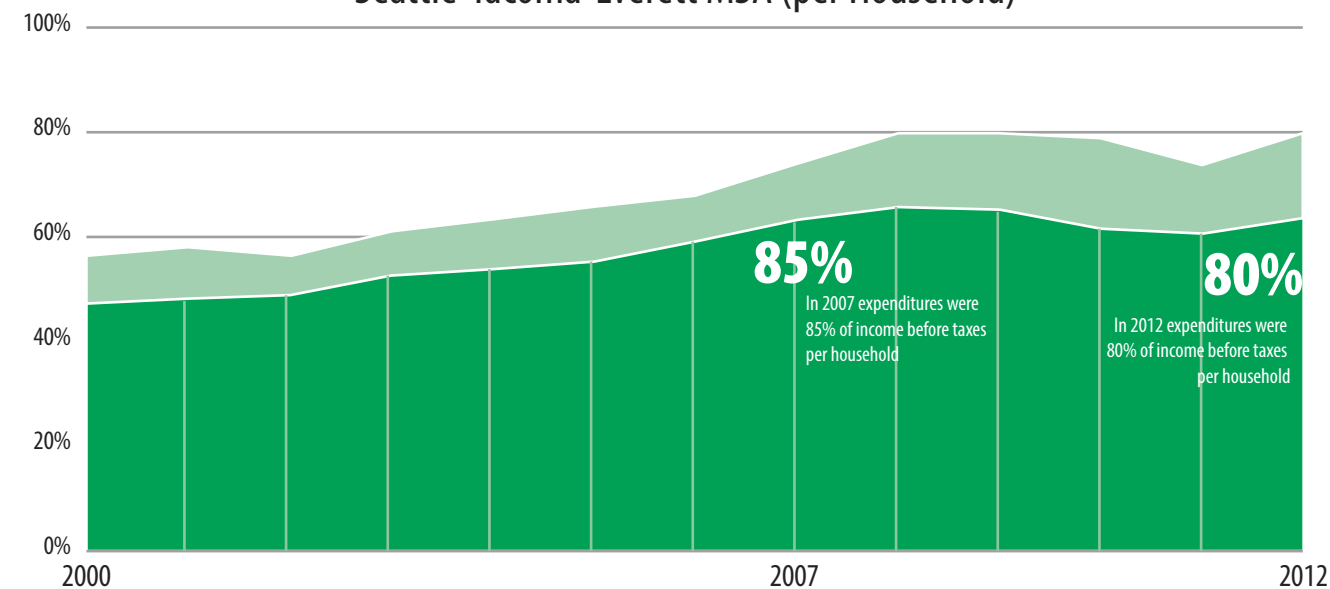
Locally, the economy has consistently outperformed the nation as a whole for several factors. Our region is home to many great companies that have weathered the recession better than most. The Puget Sound is a fully integrated region where jobs added anywhere, have an effect throughout. Bellevue in particular benefits from the integrated nature of the region. Bellevue has a higher density of retail establishments than most Cities in the region drawing shoppers from outside its borders. Bellevue's schools are nationally recognized for their high quality which makes it a coveted place to live in the region. Overall, the City's forecast assumes a continued moderate growth over the next few years.

BELLEVUE ECONOMIC STATISTICS:

- Bellevue home prices have rebounded much faster than the nation. Bellevue has now regained or surpassed the home value that was lost in the recession (not adjusted for inflation). (*Zillow Research*)
- The US unemployment rate is currently 5.9%. Economists generally believe full employment is considered when unemployment is at 3%. Currently Bellevue's unemployment rate is at 4.5% which is significantly closer to full employment than the nation as a whole. (*U.S. Bureau of Labor Statistics*)
- There are currently 8 major projects under construction in the downtown area, with another 17 projects in various stages of the review and permitting process that have not begun construction. (*2014 2nd Quarter Major Projects List, City of Bellevue Development Services Department*)

The Puget Sound region continues to out perform the nation.

Average Expenditures Compared to Average Income Seattle-Tacoma-Everett MSA (per Household)



BUDGET OUTCOMES

The budget is a policy document that establishes an operational plan to provide continuing services and also set the strategy for continued progress in meeting the City's capital investment needs. The preliminary 2015-2016 budget presented for Council's consideration totals \$1.4 billion. This biennial budget includes a 2-year appropriation for operations (\$953M), special purposes (\$52M) and capital investments (\$467M). See the table below for definitions and examples of governmental fund types.

The City uses "Budget One" to develop the 2015-2016 budget. Budget One is a process that identifies the community's priorities (called outcomes), prioritizes services to meet those outcomes, and funds those services with the available monies. Budget One encompasses all funds of the City.

The City Council validated the seven outcomes as:

Economic Growth and Competitiveness (EGC) - investments are intended to plan for growth that will add value to the quality of the City and create a competitive business environment

Healthy and Sustainable Environment (HSE) - focuses on preserving nature spaces and providing a healthy environment, which supports healthy living for current and future generations.

Improved Mobility (IM) - focuses on existing and future infrastructure, traffic flow, built environment and travel options.

Innovative, Vibrant, and Caring Community (IVCC) - promotes community engagement and fosters diversity and creativity in City-provided services.

Quality Neighborhoods (QN) - creates a "sense of community" by maintaining neighborhoods that support families and provides convenient access to day-to-day activities.

Responsive Government (RG) - fosters stewardship of financial and property interests, reflects sound business practices, and ensures deployment of programs that are necessary to deliver services.

Safe Community (SC) - focuses on maintaining a safe place to live, learn, work and play.

Budget One guiding principles

Foremost among the Council's long-term budget policies is that quality service programs be offered by the City of Bellevue. Other guiding principles include:

- ◆ A focus on services that deliver outcomes important to the community and that are responsive and accessible to all;
- ◆ Position Bellevue to realize opportunities and enhance the City's image;
- ◆ An examination of the entire budget, not just incremental changes from the last budget;
- ◆ A commitment to innovation, efficiency, and sound business practice;
- ◆ A focus on Citywide, not Department, priorities;
- ◆ A long-range strategic approach to an affordable and sustainable budget; and
- ◆ If expenditure reductions are necessary, service elimination is preferable to poor or marginal quality programs.

Definitions and Examples of Governmental Funds

Fund Types	2015-2016 Appropriation	What does it buy?
Operational Funds	\$953,308,000	Operating functions such as Police, Fire, Parks, Community Development, Transportation, Development Services/Permitting, Water, Storm and Surface Water, and Wastewater. Administrative operations such as City Council, City Manager, Technology, City Clerk, City Attorney, Finance, Service First Information, Fleet and Facilities.
Special Purpose Funds	\$52,453,000	These needs are funded by restricted money dedicated for a special purpose, such as Grants, Donations, Debt Service, Firemen's Pension, and Housing.
Capital Investment Funds (General and Utilities)	\$466,606,000	Provides for major public facility improvements for items such as park development, transportation roadways, signals, and sidewalks, and water and sewer pipes.

BUDGET OVERVIEW

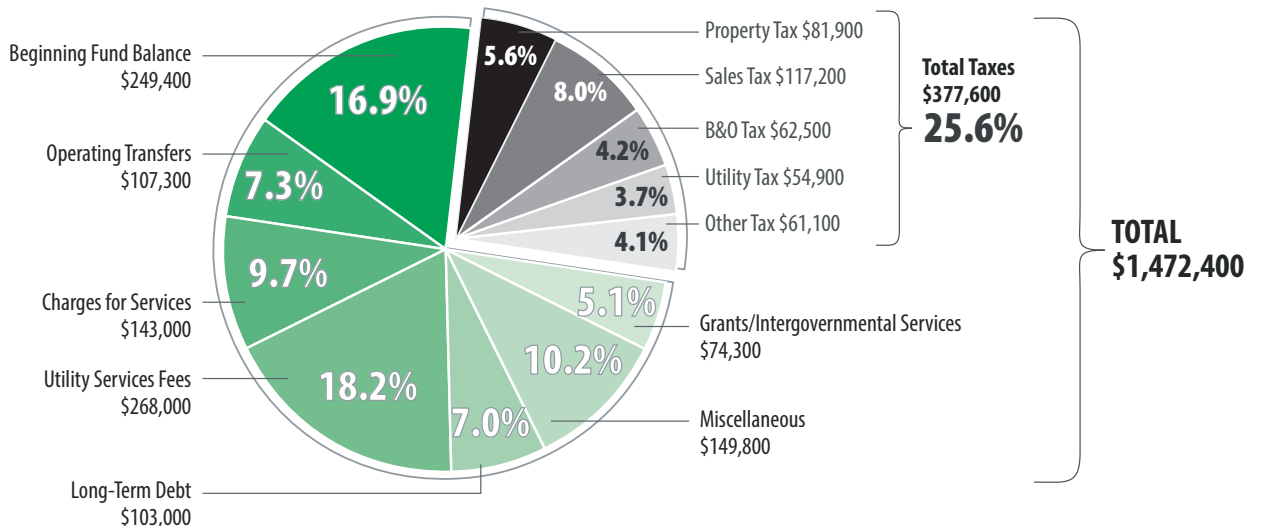
The City's preliminary budget is funded through a diverse collection of resources. Many of the resources received are dedicated to a specific purpose and cannot be spent on non-related services or programs. For example, rate revenues received from water service can only be used for that purpose and cannot be used to pay for general services or other types of utility services.

Similarly, funding received from Development Services permits can only be used for services related to delivering permits. Property tax revenue received from the voter-approved Parks Levy can only be used for projects described in the ballot measure. As noted

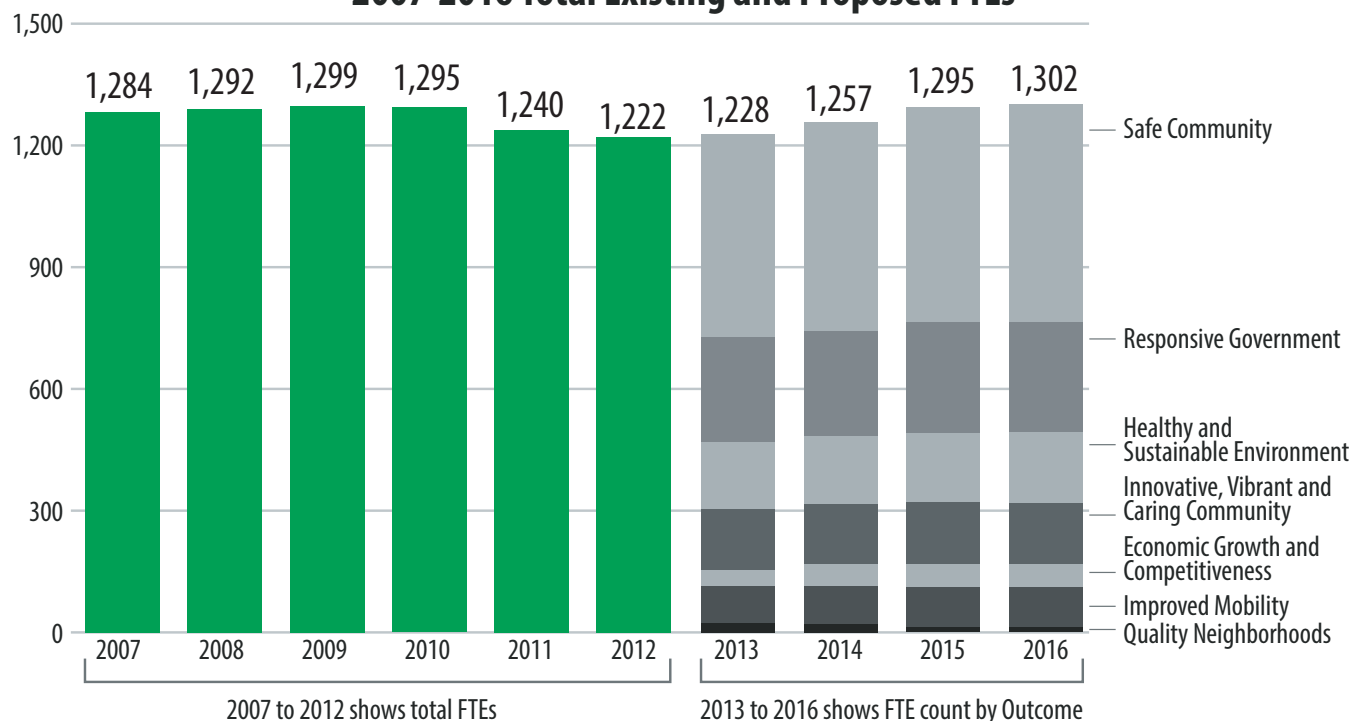
in the chart below, taxes make up 25.6 percent of the total preliminary 2015-2016 biennial budget. The remaining 74.4 percent is a collection of beginning fund balance, utility rates, and other sources.

The City directly provides many services and programs through employment of fire fighters / emergency medical responders, police officers, utility and transportation workers, and permitting staff. Consequently, a large portion of the operating budget is allocated to staffing costs. The chart below shows the number of full-time equivalent employees over time for all operations and all operating funds.

2015-2016 Total City Budget Resources (\$000s)



2007-2016 Total Existing and Proposed FTEs



GENERAL FUND

The General Fund Preliminary Budget total appropriation for the 2015-2016 biennium is \$384 million. The General Fund supports the majority of City operations including Police, Fire, Transportation, Parks and Community Services, Planning and Community Development, and various administrative functions such as City Council, City Manager, City Clerk, City Attorney, and Finance. The General Fund also provides resource support to other funds including Development Services, Information Technology, and Civic Services (Fleet/Facilities).

The General Fund collects revenue from several different sources and these sources grow at varying rates. It is funded through a combination of general taxes, utility taxes, intergovernmental charges, charges for services, and other revenue. This budget includes a 5% increase in property tax through the use of the City's Banked Capacity freeing up sales tax to fund critical and time sensitive capital needs.

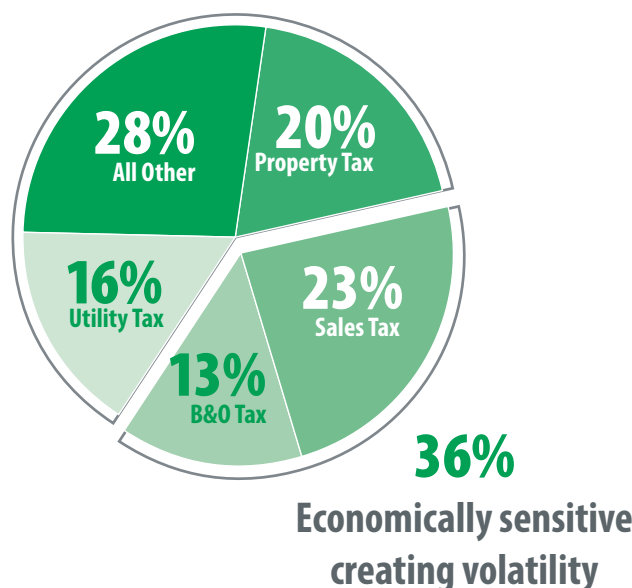
Over the past 5 years, the combination of Sales tax and Business and Occupation (B&O) tax has accounted for 36 percent of general fund revenue. Both of these two revenue sources are influenced heavily by changes

in the economy, whereas utility tax (16 percent) and property tax (20 percent) are more stable and less easily influenced. The "All Other" category of resources includes charges for services, interfund charges, state shared revenues, fines and forfeitures, and other miscellaneous revenues.

Revenues are expected to keep pace with existing FTE levels.

Sales and B&O are forecasted to grow between 4% and 5% annually for the near term. The other revenues streams in total grow at slightly less than the Consumer Price Index. Sales and B&O tax account for about 1/3 of total revenue to the General Fund. In order for the total revenue to increase by 1%, Sales and B&O taxes would have to grow by approximately 3%.

Adopted Budget General Fund Revenue



GENERAL FUND

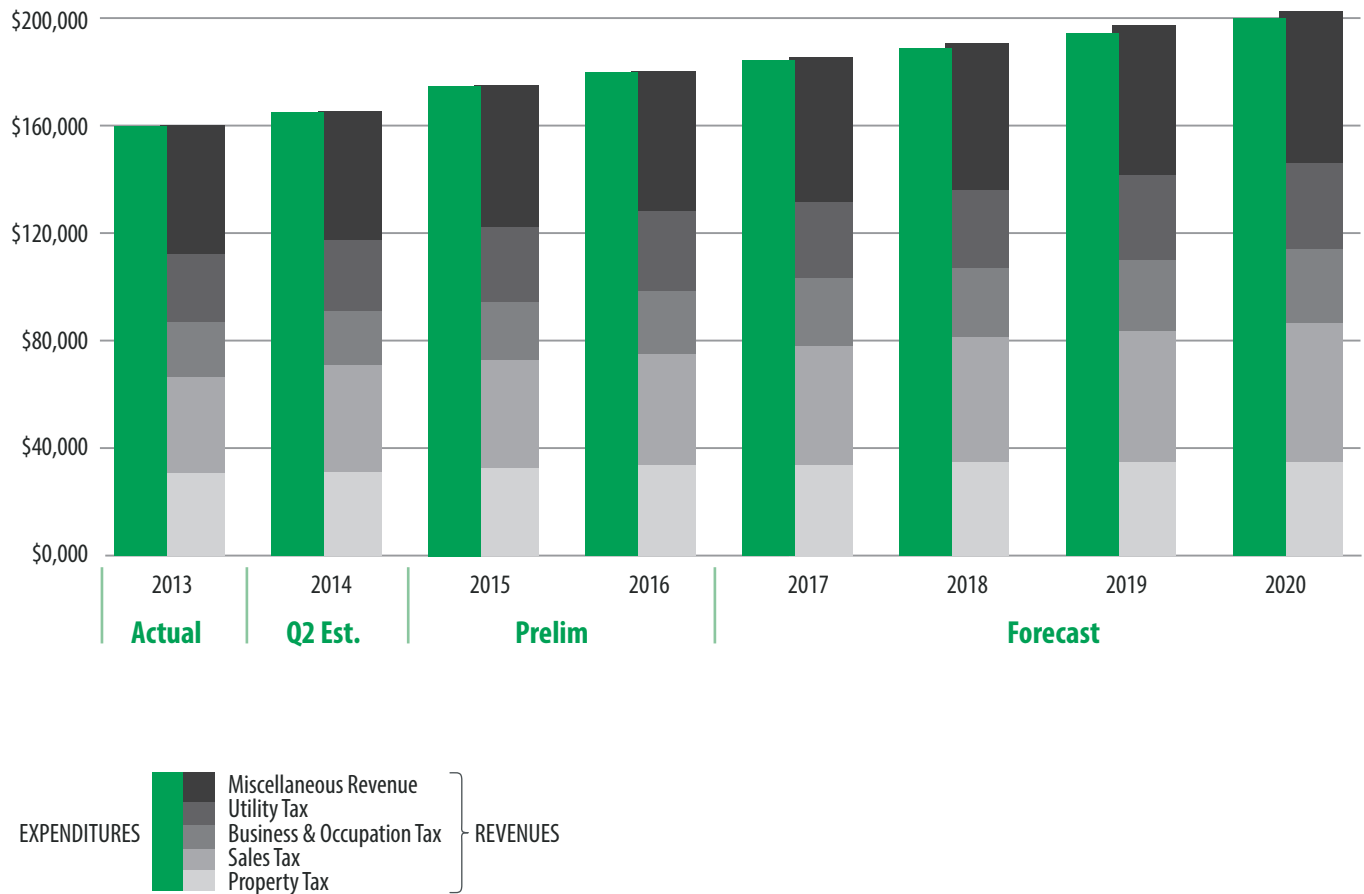
Sales and B&O are forecasted for the near term to continue to grow at moderate levels. The City is forecasting to return to pre-recessionary levels by 2015, not adjusting for inflation. This is similar for the neighboring jurisdictions as well. Total General Fund revenue is forecasted to grow at an annual average growth rate of 3.5%.

As noted in the bar chart below, the General Fund forecast shows that revenues and expenditures are growing at nearly the same rate over the next few

years. The revenue forecast assumes a 5% increase in property tax in with an equal offsetting sales tax transfer to the Capital Investment Plan fund. No other changes in rates for other major tax components such as business and occupation tax or utility taxes.

Personnel Costs are the single most substantial cost for the General Fund making up 63% for the biennium expenditures. The 2015 Preliminary Budget staffing level budget includes approximately 24 new full time employees (FTEs) compared to 2014 staffing levels.

**General Fund
Revenues vs. Expenditures**



GENERAL CAPITAL INVESTMENT PROGRAM (CIP)

(Full 7 year Program)

The 2015-2021 Preliminary General Capital Investment Program (CIP) plan sets the strategy that allows for continued progress in meeting the City's capital investment needs within a constrained budget. The CIP reflects the Preliminary 2015-2021 general CIP plan which totals \$529 million and includes a tax increase that allows additional funds to be directed to the CIP for unmet neighborhood and infrastructure needs.

The Base CIP plan (prior to the increase in revenue) accomplishes the following:

- Advances the Council Priorities with new discrete project funding – total of \$49 million
- Assures debt obligations are met, including repayment of the interfund borrowing approved by Council in 2013
- Begins addressing the Fire Long Range Facility Plan
- Provides funding to major maintenance programs
- Provides for transportation/mobility
- Meets the City contribution per the East Link MOU and advancing complementary projects
- Keeps the Parks Levy commitment and provide other quality of life amenities
- Provides for neighborhood needs
- Prepares and serves as a catalyst for future development
- Fulfills general government responsibilities

The increase in revenues allows for investments in unmet neighborhood and infrastructure needs.

New Revenue/New Investments

Council has had a significant amount of discussion over the last year about the City's capital investment strategy, including the gap between the large list of unfunded capital projects and the existing CIP revenue stream. Part of this Preliminary Budget includes a proposal for meeting \$25 million in urgent neighborhood and City-wide capital needs through new revenues. With a proposed 5% increase in the City property tax, sales tax can be targeted to address these critical and time-sensitive needs.

The recommended \$25 million in new revenues can be bonded so it is available near the beginning of the 7-year CIP. As proposed, this funding will deliver on the following:

- Addressing community connectivity throughout the City - \$2.5 million
- Advancing two neighborhood safety projects - \$9 million
 - Design of the 2nd Phase of West Lake Sammamish Parkway
 - Construction of one side of Newport Way Sidewalk
- Continuing the Downtown Transportation Plan and NE 6th Light Rail Station - \$5 million
- Opportunity Fund yet to be programmed \$8.5 million; options include:
 - Partnership Grants with community provides for culture and recreation
 - Purchase of BNSF rail corridor
 - Neighborhood needs such as sidewalks/ pedestrian access
 - Other transportation projects such as Bellevue Way HOV

The final Opportunity projects will be determined through the Council budget process.

Strategic Use of Debt

The CIP is balanced through a strategic use of long-term debt, all funded through the existing CIP revenue stream. The total long term debt modeled includes: \$60 million for the base CIP projects, \$18 million for specific property purchase, both of these debt issuance are funded by existing revenue streams. In addition, another \$25 million backs the sales tax freed up as a result of the increased 5% City's banked property tax. The current amount of councilmanic debt capacity as of July 31, 2014 is \$139 million. The actual amount of debt issuances will be determined at issuance, based on cash flow needs and project progress.

The City continues to have a large backlog of unmet capital needs such as neighborhood sidewalks, and long term infrastructure needs. These needs go far beyond what can be addressed within the 2015-2021 Preliminary Budget.

UTILITY RATES

Bellevue's utility rates are competitive and will continue to be competitive in the future with the Council adopted financial policy to proactively plan and prepare for infrastructure replacement and renewal. The Proposed Budget includes the utility rate increases for 2015-2016 shown in the chart below:

Wholesale costs drive increases

Increases in wholesale costs to purchase water supply from Cascade Water Alliance and for wastewater treatment by King County are the primary drivers for the proposed water and sewer rate increases.

Addressing aging infrastructure issues continue to be the primary driver for local programs. Most of Utilities infrastructure, with a replacement value of over \$3.5 billion, is past mid-life and increased maintenance and capital investments are inevitable.

In the next biennium, Utilities will continue to focus on operational efficiency. The proposed 2015-2016 Utilities budget continues previously approved cost containment measures and includes minimal new programs.

Water cost-of-service rate redesign

In 2014, Utilities conducted a comprehensive cost-of-service evaluation of the water utility. The purpose of the study is to determine whether any adjustments to current water utility rates are needed to ensure each customer class pays their equitable share of water system costs and is revenue neutral. The findings and recommendations of this study indicate a shift of

\$510K or 1.2% of total service revenues from single-family to commercial and multifamily customers. The results of this study are reflected in the proposed 2015-2016 utility rates.

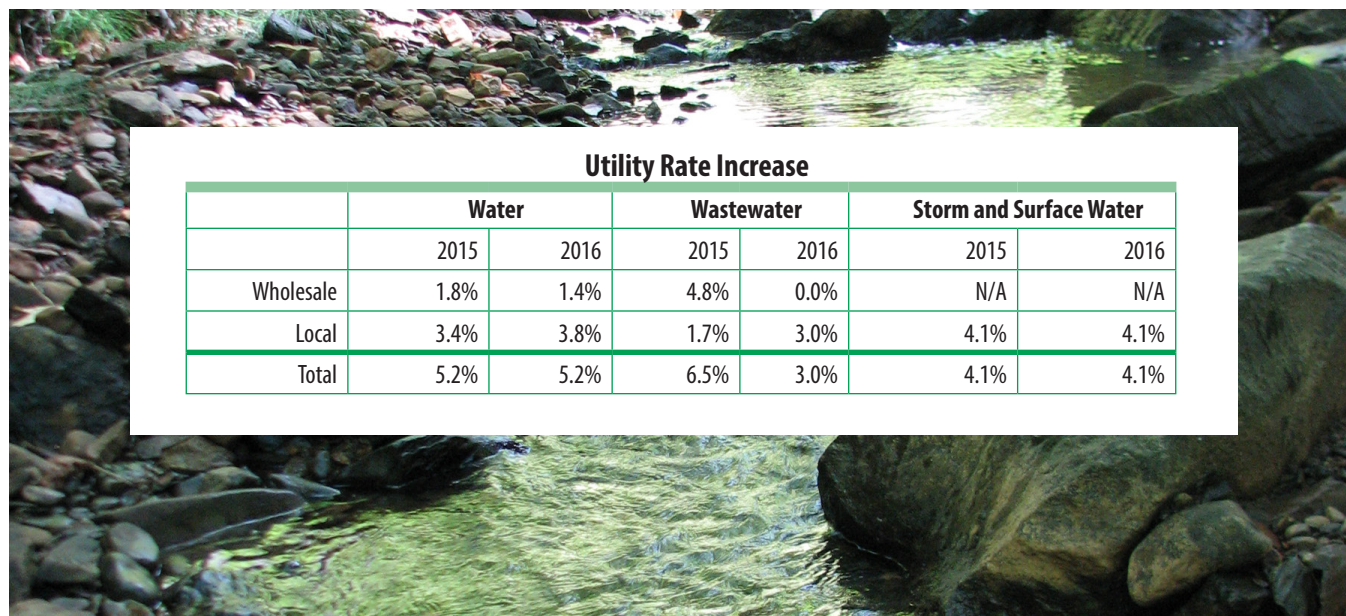
Emerging Issue

Advanced Metering Infrastructure (AMI) – not included in proposed budget

The Utilities Department has evaluated the feasibility of migrating from manually reading water meters to advanced technology that uses radio or cellular signals to securely measure and transmit water usage information for billing purposes. Migrating to AMI technology would reduce labor costs for performing manual meter reads, enable customers to have easier access to real-time water usage information, and facilitate more proactive leak detection in both private and public water systems. While migrating to AMI technology would cost more than the current meter replacement program, this would be partially offset by reductions in labor costs for performing manual reads.

The Utilities Department is proposing to position for implementation of AMI in the 2017-2020 timeframe by taking the following steps:

- Postpone current meter replacements where feasible.
- Implement rate increases in 2015-2016 to begin saving for AMI implementation.
- Study AMI technology options in 2016.



	Water		Wastewater		Storm and Surface Water	
	2015	2016	2015	2016	2015	2016
Wholesale	1.8%	1.4%	4.8%	0.0%	N/A	N/A
Local	3.4%	3.8%	1.7%	3.0%	4.1%	4.1%
Total	5.2%	5.2%	6.5%	3.0%	4.1%	4.1%

DEVELOPMENT SERVICES FUND

The Development Services forecast shows that Bellevue is continuing its steady recovery from the economic downturn. Interest in major projects is strong with a large number of new major projects in permit review or under construction.

The market for single family housing and remodels has rebounded to activity levels not seen since 2011. Current investments in multifamily housing and large projects such as Lincoln Square Expansion and the Spring District are underway with completion expected in the next few years. The Sound Transit Eastlink light rail project is moving forward and is anticipated to spur long-term commercial and residential development in the City.

The 2015-2016 Development Services budget reflects a continued high level of development activity and in subsequent years anticipates return to a more moderate pace.

Like the General Fund, the Development Services Fund faced significant reductions following the Great Recession, with staffing reduced to core levels during the past budget cycles. Since then, Bellevue's economic recovery has been strong and steady. To meet the growing demand for permit review and inspection services, staffing levels were increased in 2014 with an additional 16 FTEs (including other funds) included in the 2015-2016 budget.

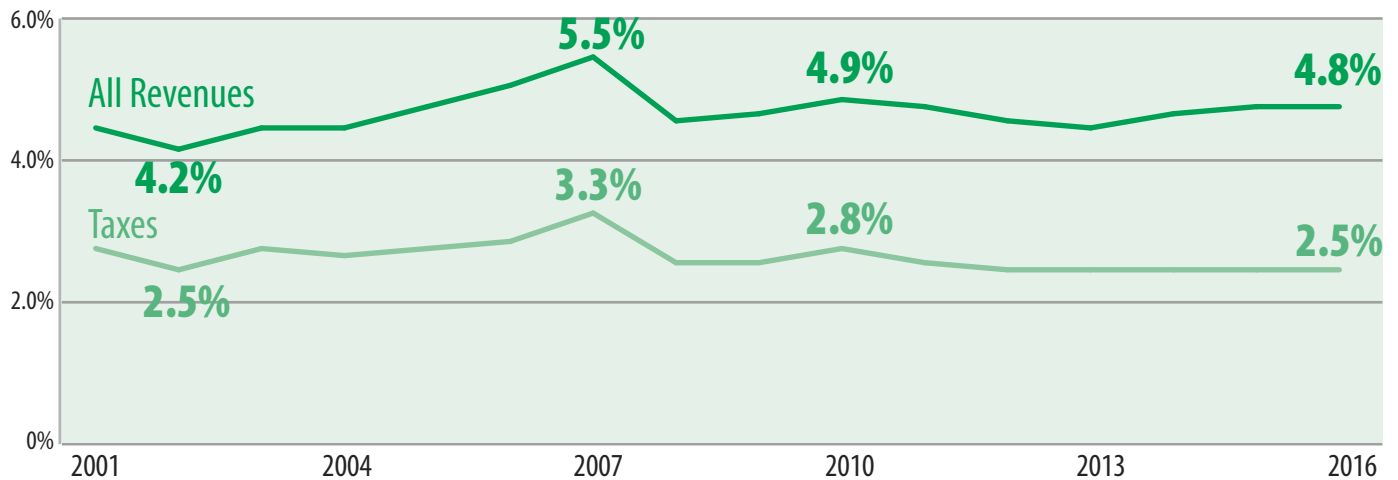
For 2015-2016, Development Services will request rate and fee adjustment in order to meet its cost recovery objectives established by City Council policy. Rates are adjusted annually to ensure that fees keep pace with the cost of providing services, and to sustain adequate resources to meet demand through the development cycles. Staff completes an annual Cost of Service Study to ensure these objectives are met.



PRICE OF GOVERNMENT

The Price of Government is literally defined as the sum of all taxes, fees, and charges collected by all sectors of government divided by the aggregate personal income of that government's constituents. The Price of Government for Bellevue, illustrated below, shows all revenues as a percent of personal income ranges between 4.2–5.5%.

Price of Government City of Bellevue 2001-2016

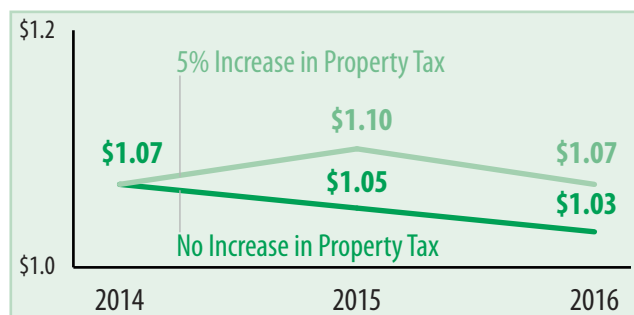


Source: City of Bellevue financial system Utilities Department billing system and US Census data

PROPERTY TAX

Bellevue has the lowest property tax rate of cities over 20,000 population in Washington. This budget forecasts a 2015 property tax with a 5% increase at \$.05/\$1,000 assessed value, an increase of \$25/year on a home or property valued at \$500,000. This moderate increase in total revenues is necessary to accomplish several critical and time sensitive infrastructure and neighborhood needs in the City.

Total Property Tax Levy Rate 2014 Estimate, 2015-2016 Preliminary



(Regular Levy plus Voted Parks Levy)